

Community welfare; industrial parks in depressed area. A nonprofit organization that purchases blighted land in an economically depressed community, converts the land into an industrial park, and encourages industrial enterprises to locate new facilities in the park in order to provide employment opportunities for low income residents of the area, is operated exclusively for charitable purposes and qualifies for exemption under section 501(c)(3) of the Code.

Advice has been requested whether the nonprofit organization described below, which otherwise qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954, is operated exclusively for charitable purposes.

The organization's objectives are the relief of conditions of poverty, dependency, chronic unemployment, and underemployment, and the reduction of community tensions in an economically depressed community. In furtherance of these purposes the organization encourages industrial enterprises to locate new facilities in the economically depressed area in order to provide more employment opportunities for low-income residents of this area.

The organization purchases blighted land in the area and converts it into an industrial park. Lots in the park are leased to industrial enterprises on terms sufficiently favorable to attract tenants to this economically depressed area. Tenants are required by their leases with the organization to hire a significant number of presently unemployed persons in the area and to train them in needed skills. In order to achieve the greatest community benefit, the organization, in selecting tenants for the industrial park, considers only those industrial enterprises whose hiring policies conform to current fair employment legislation. Enterprises having initial requirements for low skill workers are favored over those with initial high skill job requirements, since the former are of greater immediate benefit to the surrounding depressed community.

The organization is funded by the Economic Development Administration of the United States Department of Commerce pursuant to Public Law 90-222, Part D, Section 150, which provides for the establishment of special programs of sufficient size and scope to have an appreciable impact in low-income areas in arresting tendencies toward dependency, chronic unemployment, and rising community tensions. Pursuant to the terms of Public Law 90-222, the area in which the organization is active has been identified as such an area by appropriate governmental authorities. It has a high ratio of unemployed and underemployed low-income people and is an area of urban blight consisting primarily of junk yards and vacant land with little industry.

The facts relating to the activities undertaken by the

organization in carrying out its program establish that the activities are not undertaken with any motive or purpose of profit or gain but solely for the purpose of advancing the organization's declared objectives and goals.

Section 501(c)(3) of the Code provides for exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' includes the promotion of social welfare by organizations designed to relieve the poor and distressed, to lessen neighborhood tensions, or to combat community deterioration.

Rev. Rul. 74-587, 1974-2 C.B. 162, holds that a nonprofit organization formed to relieve poverty, eliminate prejudice, reduce neighborhood tensions, and combat community deterioration through a program of financial assistance designed to improve economic conditions and opportunities in high density urban areas inhabited primarily by low-income minority or other disadvantaged groups qualifies for exemption under section 501(c)(3) of the Code. The financial assistance provided was in the form of lowcost or long-term loans to, or the purchase of temporary equity interests in, business enterprises otherwise unable to obtain funds from conventional commercial sources due to their location in depressed urban communities or the proprietor's membership in a minority or other disadvantaged group.

By inducing industrial enterprises to locate in an economically depressed area and to hire and train the underemployed and unemployed in that area, the subject organization is similarly devoting its resources to uses that benefit the community in ways the law regards as charitable. The organization's activities serve not only to relieve poverty, but also to lessen neighborhood tensions caused by the lack of jobs and job opportunities in the area. Further, by creating an industrial park out of a blighted area, the organization is combatting community deterioration.

Accordingly, the organization qualifies for exemption from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which is located the principal place of business or principal office of the organization. See sections 1.501(a)-1 and 1.508-1(a) of the regulations.